

Equity Research

Nigeria: Market Watch

Market view is constructive as bull case strengthens

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Stocks to watch this week	Proj. P/E (x)	Proj. P/BV/ EV/EBITDA	Upside (%)
Ashaka Cement plc	12.1	3.5	20
Skye Bank plc	9.7	0.8	104
GT Bank plc	7.9	1.8	42
CCNN plc	17.4	7.6	-9.7

Sources: NSE, Stanbic IBTC Research

A short trading week; AMCON to spur activity

We anticipate reduced activity this week as it is a short trading week. Senate approval of the AMCON board could take place this week which would represent another positive step towards the resolution of the bailed-out banks. However, market momentum is more likely to be seen next week.

The resolution vehicle is taking shape

Given the appointment of the AMCON board by the presidency last week, we expect the banking reform process to accelerate over the next few weeks. Once the company is operational, the AMCON will likely start finalising arrangements to purchase the toxic assets from the books of the bailed-out banks. This should facilitate the sale of these banks and pave the way for a recovery.

BCC advances on merger announcement

During the week, the merger scheme between Benue Cement Company plc (BCC) and Dangote Cement plc (DCP, formerly Obajana Cement) was published. The document states that DCP will be offering minority shareholders in BCC one of its ordinary shares for two of BCC's ordinary shares and that DCP's shares will be listed and traded on the NSE from 5 November 2010. The market has reacted positively – BCC's stock climbed 4% last week. We expect this sentiment to continue this week, although gains could be limited to NGN67.50 (4% upside) – BCC's reference price for this transaction.

Secondary market

The market capitalisation of the 199 first-tier equities closed flat at N5.94 trillion last week. Some 1.4 billion shares valued at N11.95 billion were traded. The conglomerates sector was the worst performer, with PZ, UACN and Unilever all declining by over 2.2%.

The market during the week	3 September 2010	27 August 2010	% Change
NSE ASI	24,242	24,275	-0.1%
NSE market cap (N'trn)	5.940	5.940	0.0%
NSE value traded (N'bn)	11.950	10.400	14.9%
NSE val. traded (\$'bn)	0.080	0.070	14.3%
NSE vol. traded (bn)	1.440	1.200	20.0%
Banking sector val. traded (N'bn)	6.420	5.362	19.7%
Banking sector val. traded (\$'bn)	0.043	0.035	22.9%
Banking sector vol. traded (bn)	0.722	0.682	5.9%

Stanbic IBTC sector indexes	3 September 2010	27 August 2010	% Change
Banking Index	21.27	21.29	-0.1%
Breweries Index	139.97	140.66	-0.5%
Building Materials Index	75.41	72.99	3.3%
Conglomerates Index	91.30	94.90	-3.8%
Insurance Index	15.26	15.25	0.1%
Petroleum Marketing Index	50.38	49.80	1.2%
Pension Index	49.10	49.07	0.1%
Food, Beverages & Tobacco Index	68.30	68.96	-1.0%
Nifty Forty Index	45.99	46.00	0.0%

Gainers	Close (N)	%	Vol ('000)
African Petroleum plc	31.26	15.69	2,213
Nestle Nigeria plc	375.00	1.08	1,701
Chemical and Allied Products plc	35.18	10.21	549
BCC plc	64.20	4.05	1,845
Ashaka Cement plc	21.00	10.82	9,593

Losers	Close (N)	%	Vol ('000)
Guinness Nigeria plc	163.1	-2.34	1,511
MRS Oil Nigeria plc	81.70	-5.01	339
PZ Cussons Nigeria plc	32.50	-2.49	2,503
NBC plc	36.29	-5.89	2,505
7-UP plc	47.90	-4.20	653

Exchange rate	3 Sep 2010	26 August 2010	% Change
USD/NGN	149.29	149.06	0.2%
EUR/NGN	189.46	189.14	0.2%
GBP/NGN	232.25	231.40	0.4%

Commodities	3 Sep 2010	26 August 2010	% Change
Brent crude (US\$ per barrel)	76.63	74.84	2.4%

* Weekly changes

Sources: NSE, CBN, Bloomberg, Stanbic IBTC Research

Our top and bottom picks

Our top three picks are Ashaka Cement plc, GT Bank plc and Skye Bank plc — they are all trading at significant discounts to our price targets with expected returns of 20%, 42% and 104%, respectively. Our top Sell call is Cement Company of Northern Nigeria plc (CCNN), with an expected negative return of 9.7%. We list the catalysts for potential price appreciation or depreciation below.

Ashaka Cement plc, Buy (current price: NGN22.04; price target: NGN26.5)

- Some 78% annual potential earnings growth over the next three years;
- Sustainable market leadership, given that the company operates in an isolated market (north-eastern Nigeria);
- Robust technical and brand support because the company is 51% owned by Lafarge S.A; and
- Attractive valuation — Ashaka Cement is trading at 5.8x and 3.5x its 2011 P/E and EV/EBITDA, respectively, despite a 2011E EBITDA margin of 37%.

GT Bank plc, Buy (current price: NGN15.49; target price: NGN22)

- The bank is still number one in terms of efficiency — its return on equity remains one of the highest in the industry;
- The bank has a sound and experienced management team;
- The bank has implemented measures to keep its costs low and its pricing favourable; and
- Given its strong reputation, the bank has benefited from the huge flight to safety that the banking system is experiencing.

Skye Bank plc, Buy (current price: NGN6.87; target price: NGN14)

- The bank's shares now qualify as an investable stock by Nigerian pension fund administrators. This should increase demand for the stock.
- The bank is currently increasing its business offering to other state governments which we believe will deliver higher returns in the immediate future; and
- The bank's capital-raising plans will also increase its capacity to take on big ticket transactions which will improve returns.
- Like most banks in the sector, we expect write-backs to increase income during FY 10.

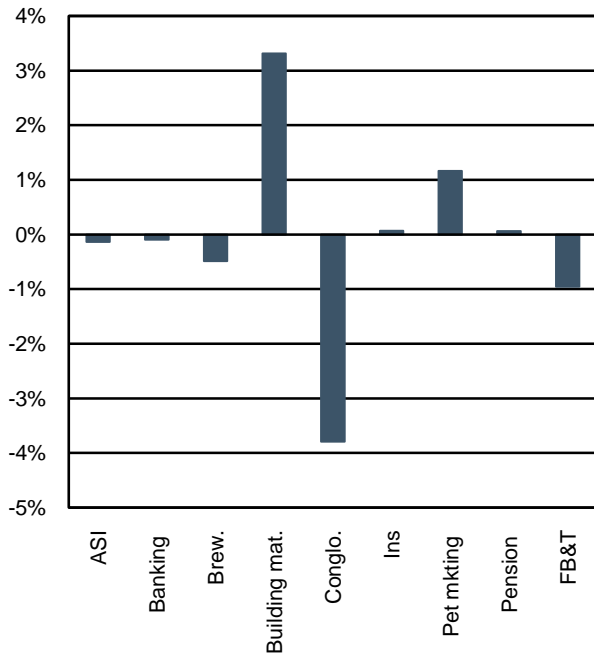
Cement Company of Northern Nigeria plc, Sell (current price: NGN14.96; price target: NGN13.50)

- Weak earnings growth outlook relative to peers — a 13% annual decline over the next three years (2010-12), despite plans for additional 200k tpa capacity by 2011; and

- A very rich valuation — CCNN is trading at 11.8x and 7.6x its 2011 P/E and EV/EBITDA, respectively, with an EBITDA margin of 20%.
- CCNN will likely witness a decline in its EBITDA margin, which may reach a low of 15% by 2012 (vs. the industry average of 32%), despite 20% annual growth in volumes.

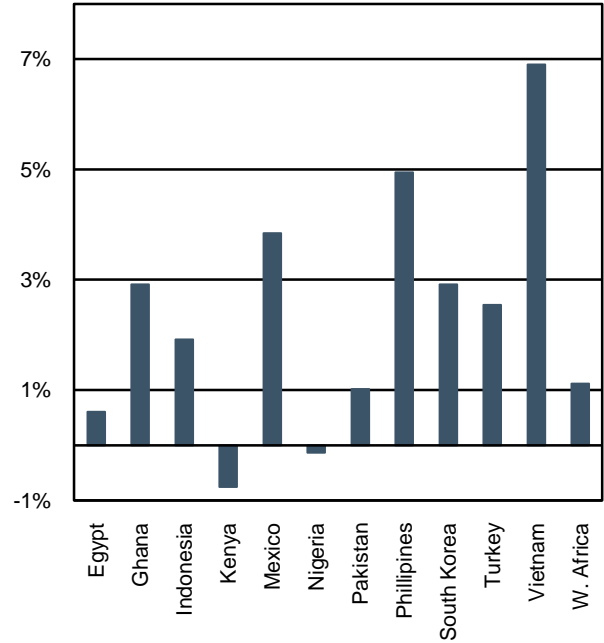
Picture gallery

Chart 1: Sector performance vs. ASI 27 August - 3 September 2010



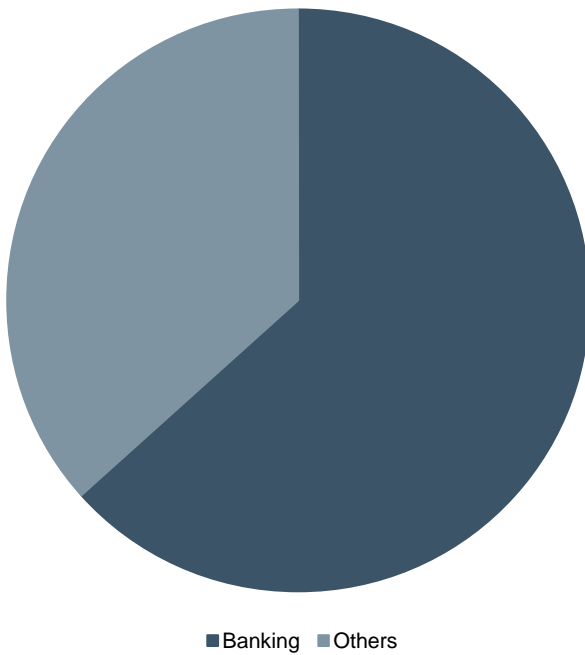
Sources: NSE, Stanbic IBTC Research

Chart 2: Performance of select emerging market indices 27 August - 3 September 2010



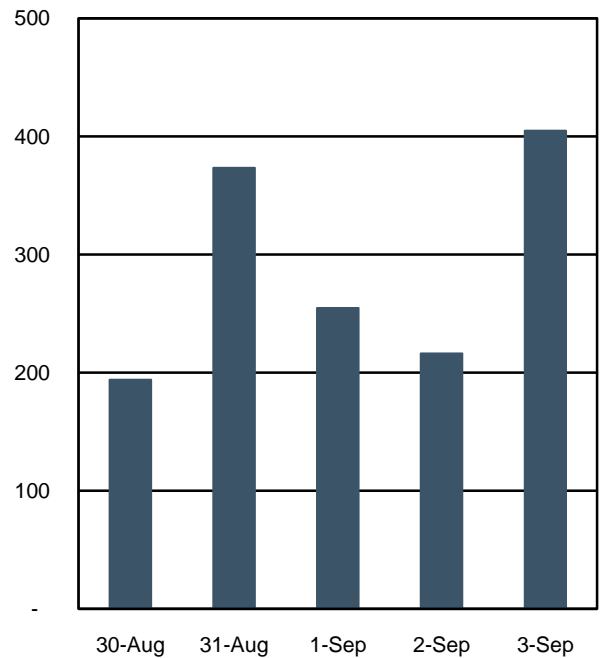
Sources: NSE, Stanbic IBTC Research

Chart 3: Vol. by sector, 30 August – 3 September 2010



Sources: NSE, Stanbic IBTC Research

Chart 4: Vol. traded (m), 30 August – 3 September 2010



Sources: NSE, Stanbic IBTC Research

Research publications

Date	Company	Title	Recommendation
25/08/2010	Access Bank plc	Initial impressions – H1: 10 results	BUY
16/08/2010	Flour Mills of Nigeria plc	Initial impressions – Q1: 10 results	BUY
11/08/2010	Oando plc	Initial impressions – H1: 10 results	BUY
10/08/2010	Skye Bank plc	Initial impressions – H1: 10 results	BUY
09/08/2010	GT Bank plc	Initial impressions – H1: 10 results	BUY
04/08/2010	Ashaka Cement plc	Initial impressions – H1: 10 results	BUY
04/08/2010	Mobil Oil Nigeria plc	Initial impressions – H1: 10 results	BUY
03/08/2010	Fidelity Bank plc	Initial impressions – H1: 10 results	BUY
29/07/2010	Total Nigeria plc	Initial impressions – H1: 10 results	BUY
28/07/2010	Ecobank plc	Initial impressions – H1: 10 results	SELL
26/07/2010	FCMB plc	Initial impressions – H1: 10 results	HOLD
22/07/2010	Zenith Bank plc	Initial impressions – H1:10 results	HOLD
21/07/2010	Diamond Bank plc	Initial impressions – H1: 10 results	HOLD
20/07/2010	First Bank of Nigeria plc	Initial impressions – H1: 10 results	BUY
15/07/2010	Nigerian cement industry	Nearing a tipping point	
14/07/2010	Flour Mills of Nigeria plc	Initial impressions – FY 09 results	BUY
01/07/2010	Dang. Sugar Refinery plc	Q1:10 results hold recommendation under review	HOLD
18/05/2010	Guinness Nigeria plc	Q3:10 results indicate declining shareholder value	HOLD
18/05/2010	Nigerian Breweries plc	Initial impressions – Q1: 10 results	BUY
20/05/2010	Fidelity Bank plc	Initial impressions – Q1:10 results	BUY
18/05/2010	FCMB plc	Initial impressions – Q1: 10 results	HOLD
18/05/2010	Presco plc	Target price raised: Well positioned for long-term value	BUY

Source: Stanbic IBTC Research

Dividends payable

Company	Declared	LDT	Pay	Dividend amount	YTD
Access Bank plc	24-August-10			NGN0.20k	NGN0.20k
GT Bank plc	09-August-10			NGN0.25k	NGN0.25k
Flour Mills of Nigeria plc	13-July-10		20-October-10	NGN2.00k	NGN2.00k

Source: NSE

Summary valuation metrics of selected companies*

Sector/ company	Latest price (N)	Share performance YTD (%)	Mkt cap (N' Bn)	P/E (x)	DY (%)	P/BV (x)	FWD P/E (x)	FWD P/BV (x)	FWD DY (%)
Banking									
Access Bank plc	7.90	17.72	146.09	0.00	0.00	0.87	8.61	0.83	6.96
Diamond Bank plc	6.42	-10.71	92.93	0.00	-8.76	0.88	10.66	0.85	5.63
Ecobank Nigeria plc	4.47	-55.74	62.04	0.00	-7.39	0.84	9.79	0.82	6.13
First City Monument Bank plc	6.55	-6.56	107.29	190.12	0.53	0.82	10.64	0.78	3.29
Fidelity Bank plc	2.33	-7.54	67.48	38.61	2.59	0.52	10.94	0.50	4.57
First Bank of Nigeria plc	12.49	0.37	407.57	127.81	0.78	1.32	8.81	1.24	6.81
Guaranty Trust Bank plc	15.49	22.70	361.18	15.25	6.56	1.98	7.94	1.80	7.56
Skye Bank plc	6.87	25.36	79.59	8843.19	0.73	0.88	9.74	0.84	5.13
United Bank for Africa plc	9.60	-11.19	248.33	104.56	1.04	1.33	12.12	1.27	4.95
Zenith Bank plc	12.50	15.74	392.46	19.05	3.60	1.16	8.63	1.10	6.96
Breweries									
Guinness Nigeria plc	163.10	27.92	240.56	17.77	4.60	7.63	18.73	7.06	4.28
Nigerian Breweries plc	72.38	36.57	547.38	19.61	5.10	11.75	18.93	11.40	5.02
Building materials									
Ashaka Cement plc	22.05	93.59	42.32	44.85	0.00	3.22	13.56	2.73	1.84
Benue Cement Company plc	65.00	51.13	254.51	17.71	3.08	10.51	11.33	7.67	5.29
Cement Company of Northern Nigeria plc	14.96	15.08	18.80	10.37	5.35	4.46	15.83	3.48	0.00
Lafarge Cement WAPCO plc	37.11	23.70	111.39	22.03	0.27	2.55	15.12	2.20	0.40
Conglomerates									
PZ Cussons Nigeria plc	32.50	30.00	103.23	18.49	2.65	2.67	19.58	2.48	2.30
UAC of Nigeria plc	39.51	34.39	63.24	15.73	3.29	1.69	14.07	1.61	4.33
Unilever Nigeria plc	24.00	26.32	90.80	22.18	0.00	11.07	14.58	10.99	6.79
Food & beverages									
Dangote Sugar Refinery plc	16.49	10.67	197.88	15.01	6.06	6.06	10.86	5.32	6.90
Nigerian Bottling Company plc	36.29	61.36	47.49	3025.09	1.38	2.17	18.49	2.02	2.16
Nestle Nigeria plc	375.00	56.58	247.71	25.32	3.35	23.49	22.28	20.29	3.81
7-UP Bottling Company plc	47.90	62.93	24.55	16.05	3.13	3.07	14.60	2.84	4.11
Petroleum marketing									
African Petroleum plc	31.26	-6.71	33.77	6.62	16.63	4.85	-8.28	11.72	0.00
Chevron Oil Nigeria plc	81.70	17.07	20.75	19.75	1.53	10.84	13.64	4.98	2.24
Mobil Oil Nigeria plc	173.00	75.10	51.99	18.29	4.05	12.45	15.33	9.69	4.24
Oando plc	62.24	-33.78	112.66	11.16	4.82	2.11	9.71	1.37	3.60
Total Nigeria plc	250.00	67.79	84.88	19.29	3.31	12.16	10.73	8.08	6.71
Agriculture									
Okomu Oil Palm plc	12.60	-44.62	6.01	4.98	2.38	1.40	7.60	1.26	5.26
Presco plc	6.98	24.64	6.98	29.15	2.87	2.66	13.82	2.41	3.26
Chemical & paints									
Chemical and Allied Products plc	35.18	25.64	9.85	28.89	4.55	9.84	21.09	12.27	3.56
Nigeria-German Chemicals plc	14.29	-4.99	0.00	122.52	3.15	1.95	115.15	1.93	0.39
D.N. Meyer plc	4.74	-12.06	0.00	21.66	2.11	8.46	19.74	5.92	0.00
Construction									
Julius Berger Nigeria plc	52.73	104.46	63.28	19.17	4.55	8.08	15.30	7.31	5.23
Costain (W.A.) plc	6.87	80.79	7.45	0.00	-	-	110.14	0.85	

Source: Stanbic IBTC Research
Prices at cob 3 September 2010

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Rating Definitions

BUY – Total expected return of 25% and greater

HOLD – Total expected return of between 0% and 25%

SELL – Total expected return of 0% and below

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Disclosures*

Company	Disclosure
Ashaka Cement Company plc	E
Benue Cement Company plc	E
Cement Company of Northern Nigeria plc	E
Guaranty Bank (GT) Bank plc	E, G, H
Skye Bank plc	E, H

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Rating	Buy	Hold	Sell
All Recommendations (%)	64	13	23
Recommendations with Investment Banking Relationship (%)	93	0	7

For the period 1 April 2010 to 30 June 2010, Stanbic IBTC Research produced investment ratings on equity securities on 103 occasions, of these 15 had a material investment banking relationship with Standard CIB in the last 12 months.

Previous Ratings

Ashaka Cement Company plc: We rated the company a Hold on 4 June 2009, a rating we maintained on 24 December 2009. We upgraded the stock to a Buy 13 July 2010, a rating we maintained on 16 July 2010, 23 July 2010, 30 July 2010, 4 August 2010, 6 August 2010, 13 August 2010, 20 August and 27 August.

Cement Company of Northern Nigeria plc: We rated the company as a Buy on 3 September 2009, 2 October 2009 and 24 December 2009. We downgraded the company to a Sell on 13 July 2010, a rating we maintained on 16 July 2010, 23 July 2010, 30 July 2010, 6 August 2010, 13 August 2010, 20 August and 27 August.

Benue Cement Company plc (BCC): We maintained our Hold rating of 17 June 2009 in our reports of 10 July 2009, 30 July 2009, 30 October 2009 and 24 December 2009. We upgraded the company to a Buy on 9 April 2010, a rating we maintained on 13 July 2010, 16 July 2010, 23 July 2010, 30 July 2010, 6 August 2010, 13 August 2010, 20 August 2010 and 31 August 2010.

GT Bank plc: we upgraded our Hold rating of 3 July 2009 to a Buy on 17 September 2009. We maintained this Buy rating in our reports dated 18 September 2009, 2 October 2009, 5 October 2009, 24 December 2009, 20 January 2010, 18 March 2010, 6 April 2010, 9 April 2010, 15 April 2010, 16 April 2010, 9 August 2010 and 27 August 2010.

Skye Bank plc: we maintained our Buy rating of 18 September 2009 in our reports dated 2 October 2009, 5 October 2009, 30 October 2009, 24 December 2009, 20 January 2010, 18 March 2010, 6 April 2010, 23 April 2010, 28 April 2010, 7 May 2010, 14 May 2010, 20 May 2010, 28 May 2010, 11 June 2010, 18 June 2010, 25 June 2010, 2 July 2010, 9 July 2010, 10 August 2010 and 27 August 2010.

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